FINAL BILL REPORT

SHB 1839

C 92 L 93
Synopsis as Enacted

Brief Description: Investing by domestic insurers.

By House Committee on Financial Institutions & Insurance (originally sponsored by Representatives R. Johnson, Mielke, R. Meyers, Jones and Wang; by request of Insurance Commissioner).

House Committee on Financial Institutions & Insurance
Senate Committee on Labor & Commerce

Background: The Washington State Insurance Code governs the investments of insurance companies formed within this state (domestic insurers). Regulation of insurance company investment practices is intended to protect the solvency and liquidity of insurers. An examination of the recent failures of several large life insurance companies revealed heavy losses related to investments in junk bonds by these companies and led the National Association of Insurance Commissioners to recommend that each state adopt legislation restricting insurer investments in "low grade" corporate obligations - "junk bonds."

Summary: Domestic insurer investment in medium and lower grade obligations (e.g., bonds), as rated by the National Association of Insurance Commissioners' securities valuation office, may not exceed 20 percent of the insurer's assets. Of this 20 percent limit, no more than 10 percent may be invested in lower grade obligations. Of this 10 percent limit in lower grade obligations, no more than 3 percent of an insurer's assets may be invested in the lower grade obligations rated five or six and no more than 1 percent may be invested in obligations rated six (the worst rating).

In addition to the investment limits related to the grade of an obligation, no insurer may invest more than 1 percent of its assets in the medium and lower grade obligation of any one institution and no more than one-half of 1 percent in the lower grade obligations of any one institution.

Insurer investments lawfully acquired before the effective date of the act are grandfathered.

The board of directors of any domestic insurer which invests more than 2 percent of its admitted assets in medium and lower grade obligations must adopt a written plan for making such investments. Among other things, the plan is to include standards for diversification of investments.

Insurers are permitted to invest in bonds rated one and two by the Securities Valuation Office and authority to invest in residential mortgage loans is amended to permit investments in loans with a higher loan to value ratio.

Votes on Final Passage:

House	98	0
Senate	40	0

Effective: July 25, 1993